

SUBURBAN HEALTH CONSORTIUM

CUYAHOGA COUNTY

**BASIC
FINANCIAL STATEMENTS**

(Audited)

*FOR THE FISCAL YEAR ENDED
SEPTEMBER 30, 2004*



**Auditor of State
Betty Montgomery**

Board of Directors
Suburban Health Consortium
1470 Warren Road
Lakewood, Ohio 44107

We have reviewed the Independent Auditor's Report of the Suburban Health Consortium, Cuyahoga County, prepared by Trimble, Julian & Grube, Inc., for the audit period October 1, 2003 to September 30, 2004. Based upon this review, we have accepted these reports in lieu of the audit required by Section 117.11, Revised Code. The Auditor of State did not audit the accompanying financial statements and, accordingly, we are unable to express, and do not express an opinion on them.

Our review was made in reference to the applicable sections of legislative criteria, as reflected by the Ohio Constitution, and the Revised Code, policies, procedures and guidelines of the Auditor of State, regulations and grant requirements. The Suburban Health Consortium is responsible for compliance with these laws and regulations.

Betty Montgomery

BETTY MONTGOMERY
Auditor of State

March 22, 2005

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**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

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TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Independent Auditor's Report

Board of Directors
Suburban Health Consortium
1470 Warren Road
Lakewood, Ohio 44107

We have audited the accompanying financial statements of the Suburban Health Consortium, Cuyahoga County (the "Consortium") as of and for the fiscal year ended September 30, 2004, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Consortium's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Suburban Health Consortium, Cuyahoga County, as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 26, 2005, on our consideration of the Consortium's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Board of Directors
Suburban Health Consortium
Page Two

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Trimble, Julian & Grube, Inc.
January 26, 2005

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
UNAUDITED

The management's discussion and analysis of the Suburban Health Consortium's (the "Consortium") financial performance provides an overall review of the Consortium's financial activities for the fiscal year ended September 30, 2004. The intent of this discussion and analysis is to look at the Consortium's financial performance as a whole; readers should also review the basic financial statements and the notes to the basic financial statements to enhance their understanding of the Consortium's financial performance.

Financial Highlights

Key financial highlights for 2004 are as follows:

- In total, net assets were \$2,204,149 at September 30, 2004.
- The Consortium had operating revenues of \$30,442,283 and operating expenses of \$28,987,943 for fiscal year 2004. The Consortium had \$59,891 in interest revenue. This figure includes interest earned plus any changes in the fair market value of investments held on-behalf of the Consortium by the its fiscal agent. Operating income and the change in net assets for the fiscal year was \$1,454,340 and \$1,514,231, respectively.

Using these Basic Financial Statements

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Consortium's financial activities. The *Statement of Net Assets* and *Statement of Revenues, Expenses, and Changes in Net Assets* provide information about the activities of the Consortium, including all short-term and long-term financial resources and obligations.

Reporting the Consortium Financial Activities

Statement of Net Assets, Statement of Revenues, Expenses, and Changes in Net Assets and the Statement of Cash Flows

These documents look at all financial transactions and asks the question, "How did we do financially during fiscal year 2004?" The statement of net assets and the statement of revenues, expenses, and changes in net assets answer this question. These statements include *all assets, liabilities, revenues and expenses* using the *accrual basis of accounting* similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or paid.

The statement of net assets and the statement of revenues, expenses and changes in net assets report the Consortium's *net assets* and changes in those assets. This change in net assets is important because it tells the reader that, for the Consortium as a whole, the *financial position* of the Consortium has improved or diminished. The causes of this change may be the result of many factors, some financial, some not. The Consortium's statement of net assets and statement of revenues, expenses, and changes in net assts can be found on pages 7-8 of this report.

The statement of cash flows provides information about how the Consortium finances and meets the cash flow needs of its operations. The statement of cash flows can be found on page 9 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the financial statements. These notes to the basic financial statements can be found on pages 10-15 of this report. The table below provides a summary of the Consortium's net assets for 2004 and 2003.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

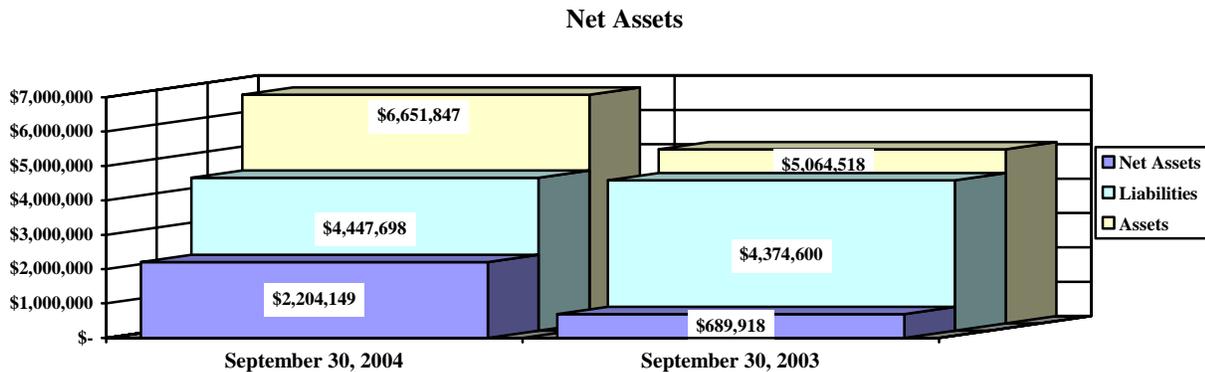
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
UNAUDITED

Net Assets

	<u>2004</u>	<u>2003</u>
<u>Assets</u>		
Cash and investments with fiscal agent	\$ 6,377,436	\$ 5,049,921
Receivables (net of allowance for uncollectibles):		
Accounts	265,968	-
Accrued interest	<u>8,443</u>	<u>14,597</u>
Total assets	<u>6,651,847</u>	<u>5,064,518</u>
<u>Liabilities:</u>		
Claims payable	<u>4,447,698</u>	<u>4,374,600</u>
Total liabilities	<u>4,447,698</u>	<u>4,374,600</u>
<u>Net Assets:</u>		
Unrestricted	<u>2,204,149</u>	<u>689,918</u>
Total net assets	<u>\$ 2,204,149</u>	<u>\$ 689,918</u>

Net assets increased by \$1,514,231 primarily due to increased participation in 2004 by member districts. Claims expense was 85.30% of total fiscal year 2004 operating revenue while claims expense was 87.20% of total fiscal year 2003 operating revenue. With increased participant contributions, net assets increased.

The chart below shows a breakdown of the Consortiums assets, liabilities and net assets for 2004 versus 2003:



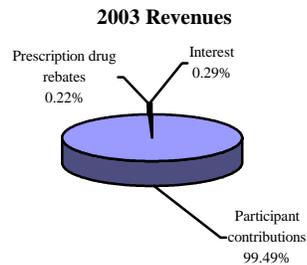
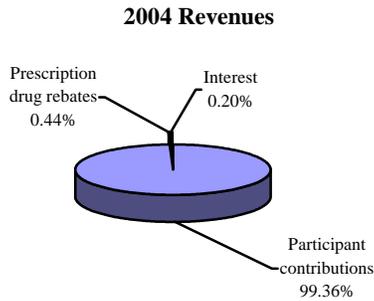
**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
UNAUDITED

The table below shows the changes in net assets for fiscal year 2004 and 2003.

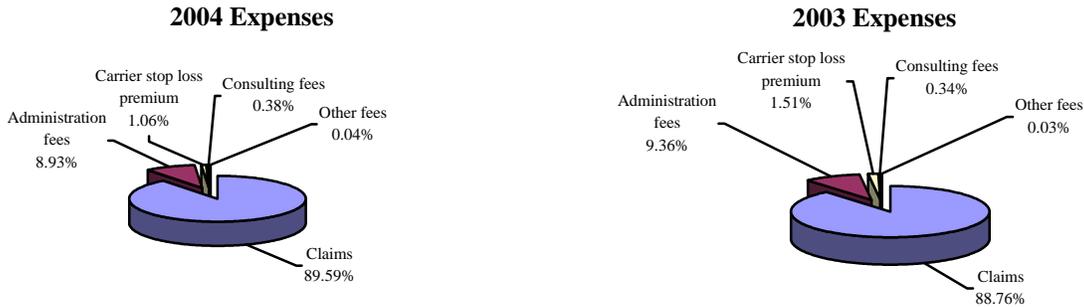
	Change in Net Assets		Increase (Decrease)
	<u>2004</u>	<u>2003</u>	<u>(Decrease)</u>
<u>Revenues:</u>			
Participant contributions	\$30,309,054	\$27,729,249	\$2,579,805
Prescription drug rebates	133,229	62,603	70,626
Interest	<u>59,891</u>	<u>79,871</u>	<u>(19,980)</u>
Total revenue	<u>30,502,174</u>	<u>27,871,723</u>	<u>2,630,451</u>
<u>Expenses:</u>			
Claims	25,968,039	24,233,711	1,734,328
Administration fees	2,589,781	2,555,099	34,682
Carrier stop loss premium	307,189	412,842	(105,653)
Consulting fees	111,354	92,660	18,694
Other fees	<u>11,580</u>	<u>9,519</u>	<u>2,061</u>
Total expenses	<u>28,987,943</u>	<u>27,303,831</u>	<u>1,684,112</u>
Change in net assets	<u>\$ 1,514,231</u>	<u>\$ 567,892</u>	<u>\$ 946,339</u>

The charts below reflect the percentage of the revenues and expenses in 2004 versus 2003:



**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

**MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004
UNAUDITED**



Current Financial Related Activities

The Consortium is committed to providing its member districts with the advantages of a large buying cooperative, while maintaining control by the local district leadership. Since its inception, the Consortium has added one additional member to the Consortium, and will continue to look at other members who meet the established criteria. Underwriting considerations are of utmost importance in reviewing new membership applications, as the Consortium is committed to protecting the long-term financial interests of its core members, and will not admit a new member that will adversely impact premiums and claims payments.

The consortium requires its members to participate in the medical insurance program, with individual district choice as to participation in the dental, prescription drug, vision, and life programs. The Consortium Board of Directors and its administrative agent, Grossman Consulting, continually discuss program enhancements to the existing product line, in addition to watching for new opportunities for consortium members.

For fiscal year 2003, the Consortium net assets were \$689,918. Net assets grew to \$2,204,149 at the end of fiscal year 2004. Establishing premiums that satisfy all claims, administration fees, and other expenses of the Consortium, in addition to enhancing the net assets position is important for the short-term and long-term interests of the consortium.

The most significant challenge facing the Consortium Board is the current trend of skyrocketing health care costs, primarily medical and prescription drug. These two programs were the impetus that brought the original ten participating districts together in an attempt to benefit from the economies of scale that could be reaped from a group of approximately 3,500 covered employees, in lieu of each individual district independently entering the insurance marketplace. As the claims costs for medical and prescription drug continue to escalate, the Board is faced with the unenviable task of attempting to balance a quality benefits offering within the financial constraints facing Ohio's public school districts. This is much the same as the dilemma facing American businesses today, and is complicated by the fact that each School District in the Consortium must collectively bargain benefit levels with the respective employee unions. The challenge is set before the Consortium and its Board of Directors, and the future looks better from the collective, as opposed to individual, view of the eleven (11) participating districts.

Contacting the Consortium's Financial Management

This financial report is designed to provide our citizen's, taxpayers, and investors and creditors with a general overview of the Consortium's finances and to show the Consortium's accountability for the money it receives. If you have questions about this report or need additional financial information contact Mr. Richard Berdine, Treasurer, Lakewood City School District, 1470 Warren Road, Lakewood, Ohio 44107 or by calling (216) 529-4096.

**BASIC
FINANCIAL
STATEMENTS**

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF NET ASSETS
SEPTEMBER 30, 2004

ASSETS:	
Cash and investments with fiscal agent	\$ 6,377,436
Receivables (net of allowance for uncollectibles):	
Accounts	265,968
Accrued interest	<u>8,443</u>
Total assets	<u>6,651,847</u>
LIABILITIES:	
Claims payable	<u>4,447,698</u>
Total liabilities	<u>4,447,698</u>
NET ASSETS:	
Unrestricted	<u>2,204,149</u>
Total net assets	<u><u>\$ 2,204,149</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Operating revenues:	
Participant contributions	\$ 30,309,054
Prescription drug rebates	<u>133,229</u>
Total operating revenues	<u>30,442,283</u>
Operating expenses:	
Claims	25,968,039
Administration fees.	2,589,781
Carrier stop loss premiums	307,189
Consulting fees.	111,354
Legal fees	10,076
Miscellaneous fees	<u>1,504</u>
Total operating expenses	<u>28,987,943</u>
Operating income.	<u>1,454,340</u>
Nonoperating revenues:	
Interest.	<u>59,891</u>
Total nonoperating revenues	<u>59,891</u>
Change in net assets	1,514,231
Net assets, October 1	<u>689,918</u>
Net assets, September 30.	<u><u>\$ 2,204,149</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY, OHIO**

STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Cash flows from operating activities:	
Cash received from participants	\$ 30,043,086
Cash received from prescription drug rebates	133,229
Cash payments for claims	(25,894,941)
Cash payments for administration fees	(2,589,781)
Cash payments for carrier stop loss premiums	(307,189)
Cash payments for consulting fees	(111,354)
Cash payments for legal fees	(10,076)
Cash payments for miscellaneous fees	<u>(1,504)</u>
Net cash provided by operating activities	<u>1,261,470</u>
Cash flows from investing activities:	
Interest received	<u>66,045</u>
Net cash provided by investing activities	<u>66,045</u>
Net increase in cash and cash equivalents	1,327,515
Cash and cash equivalents, October 1	<u>5,049,921</u>
Cash and cash equivalents, September 30.	<u><u>\$ 6,377,436</u></u>
Reconciliation of operating income to	
net cash provided by operating activities:	
Operating income	\$ 1,454,340
Adjustments to reconcile operating income	
to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in accounts receivable.	(265,968)
Increase in claims payable.	<u>73,098</u>
Net cash provided by operating activities	<u><u>\$ 1,261,470</u></u>

THE NOTES TO THE BASIC FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

NOTE 1 - DESCRIPTION OF THE ENTITY

The Suburban Health Consortium (the “Consortium”) is a legally separate entity organized under Ohio Revised Code Section 9.833. The Consortium was established on October 1, 2001, formed by the Boards of Education of several school districts in northeast Ohio, for the purposes of maximizing benefits and/or reducing costs of group health, life, dental and/or other insurance coverage for their employees and the eligible dependents and designated beneficiaries of such employees.

Some of the more significant provisions of the Consortium are as follows:

A. Board of Directors

The Board of Directors shall be the governing body of the Consortium. The Board of Education of each Consortium Member appoints its Superintendent or such Superintendent’s designee, to be its representative on the Consortium’s Board of Directors. The officers of the Board of Directors consist of a Chairman, Vice-Chairman and Recording Secretary, who are elected at the annual meeting of Board of Directors and serve until the next annual meeting. All of the authority of the Consortium is exercised by or under the direction of the Board of Directors. The Board of Directors sets and approves all benefit programs to be offered by or through the Consortium, and all policies and other contracts are accepted or entered into by the Consortium. The Board of Directors sets all premiums and other amounts to be paid by the Consortium Members, and the Board of Directors has the authority to waive premiums and other payments. All members of the Board of Directors serve without compensation.

B. Executive Committee

The Executive Committee consists of three members of the Board of Directors: the Chairman, and two other members. The Executive Committee has the full powers of the Board of Directors to manage and conduct affairs of the Consortium between meetings of the Board of Directors. The Executive Committee is specifically authorized and directed to review and decide all appeals and challenges by employees, their eligible dependents and designated beneficiaries of adverse determinations by the Plan Administrator or care or coverage under benefit programs offered by the Consortium.

The Board of Directors may ratify any action authorized or taken by the Executive Committee or may rescind and overrule any such action.

C. Fiscal Agent

The Fiscal Agent is responsible for administering the financial transactions of the Consortium. The Lakewood City School District serves as the Fiscal Agent. The Fiscal Agent carries out the responsibilities of the Consortium Fund, enters into contracts on behalf of the Consortium as authorized by the Directors and carries out such other responsibilities as approved by the Directors and agreed to by the Fiscal Agent. The Treasurer of the Fiscal Agent is the Treasurer of the Consortium. The Fiscal Agent is reimbursed for such costs incurred by it in carrying out its responsibilities as may be approved by the Board of Directors.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

D. Benefits

Consortium Member contributions are used to provide and/or purchase health, dental, life and/or other insurance benefits as provided for in the Consortium Agreement and as established by law. The Board of Directors determines, at their discretion, the insurance benefits to be provided by or through the Consortium. Benefit selections may vary among the Consortium Members for any type of benefit program. The Board of Directors determines, at their discretion, which insurance carriers and policies to utilize to provide benefits pursuant to the Consortium Agreement.

E. Enrollment by Member Districts

Each District decides which benefit program(s) offered by or through the Consortium shall be extended to its employees. Upon joining the Consortium, each Member District is required to enroll in a health benefit program (except as otherwise agreed by at least two-thirds of the Board of Directors).

F. Consortium Fund

The Consortium Fund consists of all payments made to the Fiscal Agent in accordance with the Consortium Agreement, policy dividends or rate refunds (whether received by the Consortium or left with the insurance carriers to accumulate with interest), investments made by the Fiscal Agent and income there from, and any other money or property which shall come into the hands of the Consortium in connection with the administration of benefit programs and the Consortium.

The Fiscal Agent may use the Consortium Fund for purposes such as but not limited to:

1. To pay all expenses which the Directors consider necessary in establishing and administering the Consortium;
2. To pay premiums of the Consortium's policies;
3. To make investments in accordance with the Agreement;
4. To make refunds to Consortium Members; and
5. To provide and/or purchase health insurance, life insurance, dental insurance and/or other insurance benefits.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 1 - DESCRIPTION OF THE ENTITY - (Continued)

G. Termination / Withdrawal of a Consortium Member

It is the express intention of the Consortium Members that the Consortium Agreement and the Consortium shall continue for an indefinite term, but may be terminated as provided in the Consortium Agreement. Any Consortium Member, except for the Fiscal Agent, wishing to withdraw from participation in the Consortium or any benefit program shall notify the Fiscal Agent at least one hundred eighty (180) days prior to the effective date of withdrawal. The Fiscal Agent may resign as the Fiscal Agent of the Consortium and/or withdraw from the Consortium or any benefit program at any time by giving written notice of the date of such resignation and/or withdrawal to each Consortium Member and to the Chairman of the Board of Directors at least one hundred eighty (180) days prior to the date of resignation and/or withdrawal. Specifics governing the withdrawal of a Consortium Member and the run out of all claims for such Consortium Member are addressed in Section 10 of the Consortium Agreement.

H. Contributions

Each District Member enrolled in a benefit program may require contributions from its employees toward the cost of any benefit program being offered by such District Member, and such contributions are included in the payments from such District Member to the Fiscal Agent for the benefit program. Contributions are to be submitted by each District Member, to the Fiscal Agent, required under the terms of the Consortium Agreement and any benefit program in which such District Member is enrolled to the Fiscal Agent on a monthly basis, or as otherwise required in accordance with any benefit program in which such District Member is enrolled. All general administrative costs incurred by the Consortium that are not covered by the premium payments shall be shared equally by the Consortium Members as approved by the Directors, and shall be paid by each Consortium Member upon receipt of notice from the Fiscal Agent that such payment is due.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Consortium have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Consortium also applies Financial Accounting Standards Board (FASB) Statements and Interpretations issued on or before November 30, 1989, provided they do not conflict with or contradict GASB pronouncements. The Consortium's significant accounting policies are described below.

1. Reporting Entity

The reporting entity has been defined in accordance with GASB Statement No. 14, "The Financial Reporting Entity" as amended by GASB Statement No. 39 "Determining Whether Certain Organizations Are Component Units". The reporting entity is composed of the primary government, component units and other organization that are included to ensure that the basic financial statements of the Consortium are not misleading. On this basis, no governmental organizations other than the Consortium itself are included in the financial reporting entity.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

B. Fund Accounting

The Consortium maintains its accounting records in accordance with the principles of “fund” accounting. Fund accounting is a concept developed to meet the needs of government entities in which legal or other restraints require the recording of specific receipts and disbursements. The Consortium uses an enterprise fund to account for operations (a) that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for public policy, management control, accountability or other purposes.

C. Basis of Accounting/Measurement Focus

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

For financial statement presentation purposes, the Consortium utilizes the accrual basis of accounting. Under this method of accounting, revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

The Consortium’s activities are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the Consortium’s operations are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

The Consortium distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from participants contributions for insurance coverage. Operating expenses for the Consortium include the payment of claims, carrier stop loss premiums and administrative and other fees. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

D. Cash With Fiscal Agent

The Lakewood City School District, the Consortium’s fiscal agent, maintains the Consortium financial activity on the Lakewood City School District books under a specific fund designated for Consortium activity.

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (Lakewood City School District), pools all available cash of the Consortium with that of the Lakewood City School District for investment purposes. The interest earnings are then distributed to the Consortium based on the proportion of its fund balance to the entire Lakewood City School District balance. As a result, there are no separately identified investments for the Consortium.

During 2004, investments of the Lakewood City School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and federal agency securities.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

**NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

Except for non-participating investment contracts, investments are reported at fair value, which is based on quoted market prices. Nonparticipating investment contracts, such as repurchase agreements, are reported at cost.

STAR Ohio is an investment pool managed by the State Treasurer's Office, which allows governments within the state to pool their fund for investment purposes. STAR Ohio is not registered with the SEC as an investment company, but does operate in a manner consistent with Rule 2a7 of the Investment Company Act of 1940. Investments in STAR Ohio are valued at STAR Ohio's share price which is the price the investment could be sold for on September 30, 2004.

For purposes of the statement of net assets, pooled investments maintained by Lakewood City School District (of which a portion is attributable to the Consortium) with original maturities of three months or less at the time they are purchased are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

An analysis of the Consortiums cash and investments with its fiscal agent at fiscal year-end is provided in Note 3.

E. Budgetary Process

The member school districts of the Consortium are required by Ohio law to adopt an annual budget. The Consortium itself is not required to follow the budgetary process and, therefore, no budgetary information is provided in these basic financial statements.

F. Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the basic financial statements and accompanying notes. Actual results may differ from those estimates.

NOTE 3 - CASH AND INVESTMENTS WITH FISCAL AGENT

The Treasurer of the Consortium, who also serves as Treasurer of the Fiscal Agent (Lakewood City School District), pools all available cash of the Consortium with that of the School District for investment purposes. The interest earnings are then distributed to the Consortium based on the proportion of its fund balance to the entire Lakewood City School District's balance. As a result, there are no separately identified investments for the Consortium. During 2004, investments of the Lakewood City School District were limited to the State Treasury Asset Reserve of Ohio (STAR Ohio), repurchase agreements, and federal agency securities. The investment in STAR Ohio is valued at amounts reported by the State Treasurer and is an unclassified investment since it is not evidenced by securities that exist in physical or book entry form. Non-participating investment contracts such as repurchase agreements are reported at cost and along with federal agency securities are uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Lakewood City School District's name.

**SUBURBAN HEALTH CONSORTIUM
CUYAHOGA COUNTY**

NOTES TO THE BASIC FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

NOTE 4 - RISK MANAGEMENT

The Consortium is a jointly governed organization which acts as a government risk pool for health insurance for its 11 member districts.

The Consortium employs the services of an outside consultant (Grossman and Associates) to assist them in administering the Consortium. The Consortium also uses Medical Mutual of Ohio and AdvancePCS as their third party administrators.

No employer, employee, or person claiming benefit by or through an employee shall have any claim against the Consortium or any property of the Consortium. The rights and interest of employees and persons claiming by or through employees shall be limited receipt benefits offered by or through the Consortium in accordance with the Consortium Agreement. The Consortium purchases or otherwise provides for the benefit of itself, the Directors and/or the Fiscal Agent such liability insurance with such limits of coverage as approved by the Board of Directors. The aggregate claims liability of the Consortium shall not exceed one hundred twenty percent (120%) of expected claims.

Any Consortium Member which withdraws from the Consortium pursuant to the Consortium Agreement has no claim to the Consortium's assets.

It is not necessary for each member District to hold a reserve for Incurred But Not Reported (IBNR) claims. The IBNR information is presented by the Consortium as required by GASB Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues", as amended by GASB Statement No. 30, "Risk Financing Omnibus", and is not available on a District-by-District basis.

The Suburban Health Consortium is self insured for Member District employee health insurance claims but maintains stop gap loss insurance with Medical Mutual of Ohio for \$200,000 on an individual basis. The Self Insurance Fund pays covered claims to service providers and recovers these costs from premium charges to member districts based on calculations provided with the consortium's consultant (Grossman and Associates) in conjunction with Medical Mutual of Ohio and AdvancePCS systems which are the third party administrators.

The claims liability of \$4,447,698 reported at September 30, 2004, is based on an estimate provided by the third party administrators and the requirements of GASB Statement No. 10 as amended by GASB Statement No. 30, which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be accrued at the estimated ultimate cost of settling the claims. Changes in claims activity by plan for the past two fiscal years are as follows:

<u>Fiscal Year</u>	<u>Beginning Balance</u>	<u>Current Year Claims</u>	<u>Claims Payments</u>	<u>Ending Balance</u>
2004	\$4,374,600	\$25,968,039	\$(25,894,941)	\$4,447,698
2003	\$3,467,000	\$24,233,711	\$(23,326,111)	\$4,374,600

TRIMBLE, JULIAN & GRUBE, INC.

“SERVING OHIO LOCAL GOVERNMENTS”

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Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Board of Directors
Suburban Health Consortium
1470 Warren Road
Lakewood, Ohio 44107

We have audited the financial statements of the Suburban Health Consortium, Cuyahoga County, (the "Consortium") as of and for the fiscal year ended September 30, 2004, which collectively comprise the Consortium's basic financial statements and have issued our report thereon dated January 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Consortium's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Suburban Health Consortium

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Consortium's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the management and Board of Directors of the Suburban Health Consortium, and is not intended to be and should not be used by anyone other than these specified parties.

Trimble, Julian & Grube, Inc.
January 26, 2005



**Auditor of State
Betty Montgomery**

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SUBURBAN HEALTH CONSORTIUM

CUYAHOGA COUNTY

CLERK'S CERTIFICATION

This is a true and correct copy of the report which is required to be filed in the Office of the Auditor of State pursuant to Section 117.26, Revised Code, and which is filed in Columbus, Ohio.

Susan Babbitt

CLERK OF THE BUREAU

**CERTIFIED
APRIL 5, 2005**